

ISSUE BRIEFING: ARE CALGARY'S TAXES TOO HIGH?



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KEY POINTS

- *Recent surveys show that the level of tax charged to property owners is of high concern to Calgarians*
 - *There are a number of obfuscating factors that have confused the true level of tax increases over recent years*
 - *This report aims to cut through confusing presentations by offering all-in inflation adjusted, per capita costs of Calgary's municipal government from 2008-2012*
 - *The real per capita cost of government has grown faster than private sector wages, an unsustainable trend*
 - *The report concludes with high-level suggestions for controlling the growth in Calgary's municipal spending.*
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MANNING
FOUNDATION
FOR DEMOCRATIC EDUCATION

*GENERALLY SPEAKING,
THE CITY GOVERNMENT
SHOULD ONLY
PROVIDE SERVICES
WHERE THERE IS
NO REASONABLE
ALTERNATIVE TO THE
CITY PROVIDING THE
SERVICE.*

– 52 per cent of respondents to Manning Foundation
poll (vs. 41 per cent opposed), September 2013



ARE CALGARY'S TAXES TOO HIGH?

Over the past few years two factors have collided in Calgary. Voters are concerned about the cost of living, including the cost of municipal services. Meanwhile the city has raised its taxes and expenditures significantly faster than any combination of inflation, population, and private sector wage growth.

This has led to considerable concern about Calgary's taxes. This Manning Foundation Issue Briefing lays out the numbers in a presentable format, answering the following questions:

- *What are the sources of confusion surrounding the level of property taxes?*
- *How large have the real increases been (if any)?*
- *How have these compared to other prices in the Calgary economy?*
- *By which departments have the funds been spent?*
- *On what cost-centres have the funds been spent (e.g. wages, depreciation)?*
- *How do Calgary's Municipal Expenditures compare to those of other cities?*
- *Are the increases overall reasonable, and if not, what can be done?*

The purpose of this briefing is to highlight the key features of city finances over the past five years so that it is easier for citizens to judge whether they approve of municipal activities. A secondary purpose is to bring out the possibilities for lowering taxes, or at least increases in spending by focusing on the range of services provided and the methods used to provide them.

WHAT PUBLIC OPINION TELLS US (MANNING POLL)

The Manning Foundation Poll¹ shows that the amount of taxes charged to property owners is a high concern even if not the highest that Calgarians have. It is ranked

seventh highest of fifteen issues prompted in the survey.

The same survey asked about a number of related issues regarding the range of services that the city should deliver, and the way it should deliver them:

*“[Should the City] increase private competition to provide city services at a better price **or** increase the range of services provided by the City?”*

<i>Increase private competition to provide city services at a better price</i>	<i>54%</i>
<i>Increase the range of services provided by the city</i>	<i>37%</i>
<i>Both</i>	<i>3%</i>
<i>Neither</i>	<i>2%</i>
<i>Don't know/Refused</i>	<i>4%</i>

*“[Should the City] Promot[e] a vibrant city through increased city services **or** promot[e] a vibrant city by encouraging individuals and businesses to be more involved?”*

<i>Promoting a vibrant city through increased city services</i>	<i>26%</i>
<i>Promoting a vibrant city by encouraging individuals and businesses to be more involved</i>	<i>63%</i>
<i>Both</i>	<i>7%</i>
<i>Neither</i>	<i>1%</i>
<i>Don't know/Refused</i>	<i>3%</i>

“Generally speaking, the city government should only provide services where there is no reasonable alternative to the city providing the service. The city should provide services like public transit, police and other first responders, build and maintain roads, and provide other infrastructure like water and sewer services. But the city should not be in areas like golf courses, sailing clubs and other programs that can be delivered easily by private organizations.”

[or]

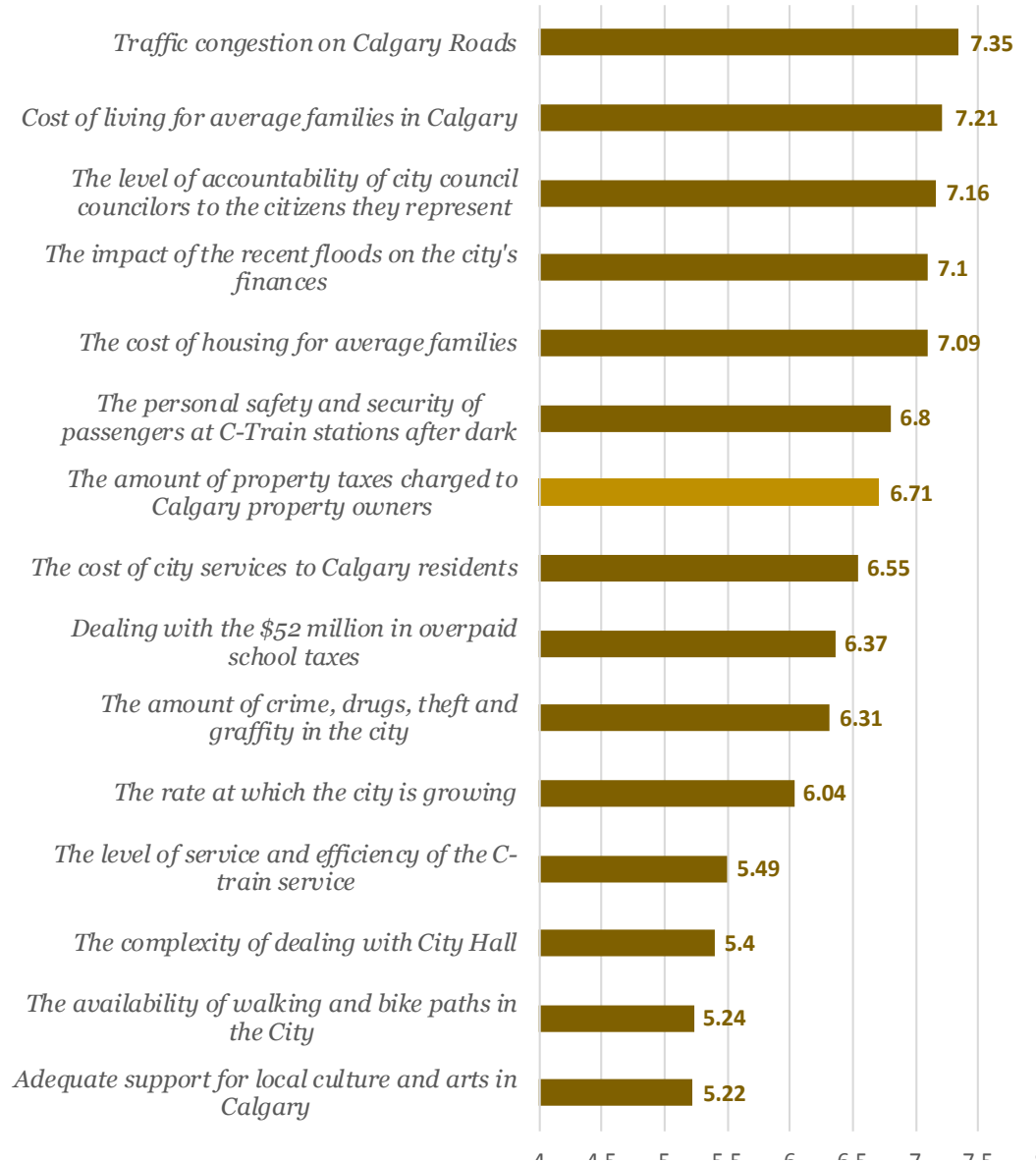
“The city government should view its responsibility as providing services that it thinks are required to make a great city, even though they go beyond basic services. These might include cultural spending and supporting planning activities such as setting a 100-year vision on how Calgarians should live.”

<i>Generally speaking, the city government should only provide services where there is no reasonable alternative to the city</i>	<i>52%</i>
<i>The city government should view its responsibility as providing services that it thinks are required to make a great city</i>	<i>41%</i>
<i>Both</i>	<i>4%</i>
<i>Neither</i>	<i>2%</i>
<i>Don't know/Refused</i>	<i>2%</i>

FIGURE 1

MEAN SCORES FOR CALGARIANS' CONCERNS

On a scale where 0 is "not at all concerned" and 10 is "very concerned"



Manning Foundation Municipal Survey

Sample Size n=2,000

Fielded September 18-26, 2013

Precision +/- 2.2%

Full Results: www.manningfoundation.org

“City government should fund services in the sports, arts and culture areas like sailing clubs, golf courses and cultural activities so they are more accessible to all Calgarians.”

[or]

“City government should not be in the business of funding sports, arts and culture activities. These are not within the role of city government and should be left to private individuals.”

<i>City government should fund services in the sports, arts and culture areas like sailing clubs, golf courses and cultural</i>	<i>53%</i>
<i>City government should not be in the business of funding sports, arts and culture activities</i>	<i>38%</i>
<i>Both</i>	<i>5%</i>
<i>Neither</i>	<i>2%</i>
<i>Don't know/Refused</i>	<i>2%</i>

“City government should continue to fund roads and subsidize public transit using property taxes as they already do.”

[or]

“City government should reduce the portion of property taxes that pay for roads and transit and raise the money for these services by charging user fees, tolls and increased transit fares.”

<i>City government should continue to fund roads and subsidize public transit using property taxes as they already do.</i>	<i>71%</i>
<i>City government should reduce the portion of property taxes that pay for roads and transit and raise the money for these services by charging user fees, tolls and increased transit fares.</i>	<i>22%</i>
<i>Both</i>	<i>2%</i>
<i>Neither</i>	<i>3%</i>
<i>Don't know/Refused</i>	<i>2%</i>

CITIZEN SATISFACTION SURVEY

The City of Calgary's Citizen Satisfaction Survey (CSS)² shows that, when informed that half of property taxes go to province, 62 per cent believe they get good value from the municipal portion of property taxes, 29 per cent neutral, and 8 per cent believe they receive poor value. These figures have been improving over the past three years, to the highest level in a decade. The last time that satisfaction was comparably high was in 2005.

On the question of increasing or decreasing the level of taxes, the Survey asked whether respondents supported raising or lowering taxes in the context of whether it would lead to an increase or decrease in services. The City's presentation shows that 59 per cent of respondents would like to increase taxes to either increase or maintain service levels (24 per cent to increase, 34 per cent to maintain). 33 per cent would like to cut services in order to maintain the current tax level or reduce services to reduce taxes (26 per cent to maintain and 7 per cent to reduce).

However it is also noticeable that only 24 per cent supported increasing service levels if it meant increasing taxes. Of the remaining combinations, 34 per cent supported maintaining the current service level and 33 per cent supported reducing services to either

cut or maintain current tax rates.³

The final question relevant to this report's topic was on the mix of taxes and user fees that the City should use to increase revenue. Respondents were strongly in favour of user fees, with 73 per cent preferring increased user fees to 27 per cent preferring increased taxes.

Altogether the two surveys approach the question of taxes from different angles with different questions. The CSS results are more favourable to city spending, however both surveys find that respondents favour holding the line or reducing service levels and using more market-based mechanisms such as user fees (CSS) and contracting out to deliver the services (Manning Survey).

UNDERLYING VALUES

Taxes are a useful institution for any society. They provide revenue for public goods that might go unfunded without compulsion –everybody would wait for somebody to pay but nobody, or at least too few people, would actually do so. The Police service is an example of such a service, everybody wants a safe community but nobody wants to shoulder the cost individually.

However taxes also mean that governments exercise an extraordinary power. Only government can legally compel payments without prior agreement, and this power is open to abuse. In a liberal democracy such as Canada taxing powers are unlikely to foment tyranny, but only because citizens carefully monitor their use.

Furthermore, taxes distort incentives at the same time as they raise revenue. There is mixed evidence as to the extent that taxes affect decisions to locate in a particular municipality, however there is some effect, and municipalities must be wary of driving activity out of their jurisdiction by setting taxes too high.

In addition to taxation, municipal governments such as the City of Calgary also collect revenue by way of user fees, levies, and license fees. Residents have a greater ability to control these costs (for

example by reducing how much water they use), however the control is not absolute. User fees are often charged for the use of by network infrastructure where the government is a monopoly provider and the service is considered essential, so consuming the services is not an entirely free choice. In addition, looking only at taxation might incentivize elected officials to replace taxes with user fees instead of focusing on the overall cost of government.

At the municipal level, taxes should be used only where there is no other way to raise revenue for the production of a good. This is the well known classification of public and private goods. Amongst other characteristics, public goods are those where it is impractical to charge a fee for use. Despite the name, public transit is actually a private good as it is easy to identify the beneficiaries and charge them as the board the train or bus. The police are a public good because it is hard to identify and charge particular beneficiaries of a safer community. Tax funding makes sense for public goods because the beneficiary is everybody. For this reason there is an economic argument for using taxes to fund the police but much less so for transit.

Altogether governments must tread a fine line when using the extraordinary power of taxation. Without sufficient citizen oversight, the potential for abuse of power, distorted incentives, and economic inefficiency is large.

TAXES ARE A USEFUL INSTITUTION FOR ANY SOCIETY. THEY PROVIDE REVENUE FOR PUBLIC GOODS THAT MIGHT GO UNFUNDED WITHOUT COMPULSION -EVERYBODY WOULD WAIT FOR SOMEBODY TO PAY BUT NOBODY, OR AT LEAST TOO FEW PEOPLE, WOULD ACTUALLY DO SO.... HOWEVER TAXES ALSO MEAN THAT GOVERNMENTS EXERCISE AN EXTRAORDINARY POWER. ONLY GOVERNMENT CAN LEGALLY COMPEL PAYMENTS WITHOUT PRIOR AGREEMENT, AND THIS POWER IS OPEN TO ABUSE.

FACTS AND ANALYSIS

The most important task in any analysis is to establish what has happened. This section assesses the challenges of understanding the City's finances, and attempts to present the numbers in a fair and transparent way.

There has been some controversy over the levels of tax increases in Calgary in recent years. There are several reasons for this confusion:

- Taxes are levied on individual property value assessments, which change, meaning that there is no general tax rate. For each property the tax level is produced from a combination of the assessed value and the mill rate, but there is no general tax. One property's assessment might rise leading to higher taxes while another's might fall, leading to a tax reduction. During the 2006-08 property boom mill rates fell significantly, however taxes did not fall in dollar terms due to average assessed property values rising.
- There are different mill rates for business and residential properties. Calgary has one of the highest differentials between residential and business tax rates. This leads to confusion where Calgary can claim to have low taxes if only residential rates are considered, but this does not mean the overall extraction of property tax from the economy is low.
- Property taxes are collected by municipalities but partially disbursed to the Province and ultimately School Boards. This can lead to confusion, in some cases deliberately caused, over the true cost of municipal services
- Prices throughout the economy are something of a moving target. There is a question of whether a rise is reasonable if it tracks the Consumer Price Index (CPI), private sector wage growth, or the Municipal Price Index (MPI), the latter being a special index of prices that the City of Calgary claims are the most relevant to delivering city services
- Population growth means that the City's aggregate numbers do not reflect the changes from an individual citizen's standpoint. More people may lead to higher aggregate numbers, but the cost per person is what matters to each individual
- Accounting changes mean that numbers over time are not necessarily comparable, and often the best that can be done for these disconnects is to acknowledge them. For example in 2009 the Public Sector Accounting Board changed the way that municipalities account for depreciation of their (very large) holdings of physical assets.

- Legacy issues may influence the starting point of any trend. For example it is easy for supporters of tax increases to claim that the City is ‘catching up’ from a base of low property taxes, something that is easy to claim and nearly impossible to disprove.
- Accounting changes cannot be fully adjusted for, by their very nature they prevent the reader from accessing full information about what has happened, the best that can be done is to acknowledge them where they occur

For these reasons, the numbers used below are sourced from the City’s own Annual Report, and use the following principles:

- Aggregate figures are divided by the number of individuals so that population growth is accounted for
- Figures are given for business, residential and combined business and residential taxes as well as user fees to give a full picture of the City’s revenues
- Provincial property taxes, collected for education, are not counted. The focus of this report is not education or provincial policy, but the factors that can be affected by decisions made at City Hall
- The analysis focuses on things that the City can control. Nationwide inflation is primarily a function of the Bank of Canada’s control of the money supply, so figures are adjusted to 2012 dollars using the Bank’s Consumer Price Index
- Data is given for the previous five years. This is the period for which the City provides comparable data in the statistical section of its financial statements
- A 2012 comparison with other major cities is given to put the five year time series results in context.

Calgary’s finances occur in the context of inflation, population growth, and private sector wage growth. Subsequent figures are adjusted for this context. This means that changes in the figures are the changes that affect the average person, adjusted for inflation.

As can be seen from Figure 3, all taxes have risen even after population growth and inflation are adjusted for, with the exception of Revenue in Lieu of Taxes. Residential taxes, which most directly affect citizens, have risen twice as fast as wages, while business taxes have risen three times faster.

However taxes are not all of Calgary’s revenues, they are roughly half. It is also important to consider the trends in user fees and other exactions.

Similar to the trends for taxes, user fees have risen 16.6 per cent above and beyond population growth and inflation (see Figure 4).

FIGURE 2

POPULATION, INFLATION, AND INCOME CHANGES IN CALGARY 2007-2012

	2007	2008	2009	2010	2011	2012	5 Year % Change
Population⁷	-	1,042,892	1,065,455	1,071,515	1,090,936	1,120,225	7.4%
Dwelling Count	-	432,997	438,663	445,455	450,952	459,339	6.1%
Seasonally Adjusted July CPI⁸	-	115.4	114.3	116.6	119.8	121.3	5.1%
Income All Family units (2011 dollars)	81,800	78,100	79,800	80,700	90,700	-	10.9%
Income Economic families, two persons or more (2011 dollars)	104,600	100,600	103,100	100,500	113,800	-	8.8%
Income Unattached individuals (2011 dollars)	42,100	44,100	42,100	45,900	40,000	-	-5.0%

FIGURE 3

CHANGES IN TAXES PER CAPITA, ADJUSTED FOR INFLATION (2012 DOLLARS)

	2008	2009	2010	2011	2012	Change in real per capita taxes from 2008-12
Residential Taxes	\$416	\$442	\$458	\$488	\$503	21.0%
Non-residential taxes	\$394	\$440	\$465	\$471	\$517	31.4%
Community revitalization levies	\$5	\$8	\$11	\$14	\$20	295.3%
Business tax	\$185	\$206	\$196	\$197	\$191	3.4%
Revenue in lieu of taxes	\$224	\$180	\$162	\$179	\$180	-19.8%
Local improvements and special levies	\$10	\$11	\$13	\$12	\$12	20.5%
Total	\$1,232	\$1,287	\$1,305	\$1,362	\$1,422	15.4%

On the expenditure side, a similar calculation can be done to see where funds have been used (see Figure 5). What have been the destinations of the funds, both in terms of the activities they have been spend on (e.g. police, transportation), and the cost centres (e.g. salaries and wages, financing costs).

Expenditure figures are somewhat distorted by changes in accounting that have occurred over this period. From 2009 onward, the Public Sector Accounting Board (PSAB) required municipalities to change the way that they account for depreciation. Municipalities are now required to report the cost of depreciation in any given year as a cost for that year. Over the past several years, as the City's knowledge of infrastructure assets and their status has increased, expenditure figures have been revised to give a truer reflection of the total costs.

The result is that most of the figures do not fairly reflect the changes in expenditure. What is noticeable is that the more infrastructure intensive areas, such as water services and roads, have been subject to greater increases in expenditure over this time. This does not necessarily mean that City Hall has made a deliberate effort to increase funding to these areas, but rather that accounting improvements have brought the annual costs closer to reality.

The City also presents figures on a cost-

centre basis. These cost centres include depreciation, which can be seen to be the second largest rise in expenditures (in dollar terms).

Aside from the immense growth in depreciation expenses and the decline the cost of in materials, equipment, and supplies purchased by the City, the most noticeable increase in percentage terms is the transfer of funds to third party groups.

In dollar terms, the largest expense and largest increase by far is in salaries, wages, and benefits. Figure 7 shows the mix of increased staff numbers that has driven this, and compares the changes in average City staff remuneration to wage growth across the Calgary economy.

The after tax incomes for different household types in Calgary as reported by Statistics Canada are not directly comparable to the average full employment cost per individual at City Hall. There is an additional difficulty in that the latest Statistics Canada data is for the years 2007-2011, whereas the City of Calgary data is for the years 2008-2012. Nonetheless it is clear that wage growth at City Hall has been significantly higher over five years than in the wider Calgary economy.

Besides the level of spending and taxation, citizens may also be interested in the level of debt that is taken on by the City. Ultimately,

FIGURE 4

TRENDS IN USER FEES PER CAPITA ADJUSTED FOR INFLATION (2012 DOLLARS)

	2008	2009	2010	2011	2012	5 Year % Change
Water and sewer	\$356	\$352	\$360	\$366	\$389	9.2%
Public transit	\$136	\$134	\$146	\$141	\$152	11.6%
Real estate	\$49	\$48	\$64	\$91	\$72	48.9%
Recreation and culture	\$39	\$38	\$38	\$52	\$58	50.5%
Parking	\$52	\$51	\$51	\$50	\$52	1.0%
Social housing	\$40	\$40	\$41	\$37	\$41	0.7%
Protective services	\$45	\$44	\$46	\$40	\$38	-14.9%
Waste disposal	\$36	\$36	\$82	\$83	\$76	110.7%
Other	\$36	\$35	\$33	\$38	\$41	13.5%
Total User fees	\$788	\$778	\$881	\$897	\$918	16.6%

all debt taken on by the municipality must be repaid by the Citizens through municipal taxes, user fees, or taxes paid to higher levels of government and transferred to the municipality. In addition, servicing the interest on debt accrued in previous years is an additional annual cost that competes with current year expenditures.

Figure 8 shows that, after adjusting for population growth and inflation, the real amount of debt held by the City on a per capita basis is 54 per cent higher in 2012 than it was in 2008. Most of this increase occurred from 2008-2010.

The level of transfers from the provincial and federal government is one explanation for this shift in debt. Capital transfers have fallen per capita in real terms. However this effect should not be overstated with respect to operating expenditure. Operating transfers

have fallen very marginally, by nine dollars per capita over five years (Figure 9).

Finally, citizens might ask whether Calgary's changes in taxes, user fees, expenditures and debt levels over the past five years cannot be justified in the following way: Yes there have been sharp rises ahead of the rest of the economy, however municipalities are inherently different from the rest of the economy. They provide a different mix of services and therefore face different input costs. It is to be expected that its expenditures will rise faster than the remainder of the economy for this reason. One obvious objection to this line of thinking is that the situation is unsustainable. If city costs were to rise faster than the rest of the economy indefinitely then eventually the municipality will consume all available resources in the city.

ONE OBVIOUS OBJECTION TO THIS LINE OF THINKING IS THAT THE SITUATION IS UNSUSTAINABLE. IF CITY COSTS WERE TO GROW FASTER THAN THE REST OF THE ECONOMY INDEFINITELY THEN EVENTUALLY THE MUNICIPALITY WILL CONSUME ALL AVAILABLE RESOURCES IN THE CITY.

FIGURE 5

EXPENDITURES BY FUNCTION PER CAPITA ADJUSTED FOR INFLATION (2012 DOLLARS)

	2008	2009	2010	2011	2012	5 Year % Change
<i>police</i>	288	315	358	357	367	27.3%
<i>fire</i>	161	180	216	216	220	36.2%
<i>emergency Medical Services</i>	54	16	-	-	-	-100.0%
Protective services	504	511	574	573	586	16.4%
<i>public transit</i>	286	288	356	363	391	36.9%
<i>roads, traffic and parking</i>	168	240	454	336	317	89.0%
Transportation	454	628	810	699	708	56.1%
<i>water services & resources</i>	148	168	320	336	342	130.4%
<i>waste and recycling</i>	61	83	116	88	99	62.2%
Environment protection	209	251	437	424	441	110.5%
<i>community and social development</i>	51	49	50	53	50	-2.8%
<i>social housing</i>	76	109	120	99	101	33.4%
Social Development	127	158	170	151	151	18.8%
<i>parks and recreation facilities</i>	164	189	248	245	188	14.7%
<i>Societies and related authorities</i>	42	84	94	78	61	46.2%
<i>Calgary public library Board</i>	36	37	44	48	47	30.9%
Recreation and culture	242	311	386	371	296	22.6%
<i>general government</i>	162	189	193	257	236	46.2%
<i>public works</i>	130	117	162	173	158	21.1%
<i>real estate services</i>	38	43	78	54	65	70.4%
Other expenditure	331	349	434	483	459	38.8%
Total Expenses	2273	2569	2812	2702	2641	16.2%

FIGURE 6

CITY OF CALGARY EXPENDITURES ON A COST-CENTRE BASIS PER CAPITA, ADJUSTED BY INFLATION

	2008	2009	2010	2011	2012	5 Year % Change
Salaries, wages and benefits	1212	1295	1381	1388	1403	15.7%
Contracted and general services	215	377	427	341	248	15.4%
Materials, equipment and supplies	293	205	210	232	211	-27.8%
Tax supported interest charges	33	26	53	58	44	34.4%
Self supported interest charges	68	82	68	66	77	14.5%
Third-party social, cultural and recreation	87	166	163	155	116	33.9%
Utilities	60	64	59	63	63	5.1%
Amortization	307	354	387	384	466	51.8%
Loss on disposal of tangible capital assets	0	0	66	16	13	-
Total expenses	2273	2569	2812	2702	2641	16.2%

Another way of coming at the question of reasonableness is to compare Calgary's headline expenditures to those in other cities. What follows is a comparison between the larger cities in Canada; Calgary, Edmonton, Ottawa, Toronto, and Winnipeg. Comparisons are made on a per capita basis.

Comparing top line figures for Calgary with figures from other municipalities (Figure 10) shows that Calgary's figures are not significantly higher than those of other cities of comparable size. Calgary's financial dimensions could be best characterized as comparable to the more expensive large

cities.

It should be noted that the Ottawa and Toronto expenditure figures include significant expenditures on social housing and on social and family services. The figure 'expenditures excluding social and housing presents all cities without these expenditures.

IDEAS FOR REDUCING THE COST OF MUNICIPAL GOVERNMENT TO CALGARIANS

The remainder of this report considers possible options for reducing the cost of city services in three general ways. The first is to

FIGURE 7

CITY OF CALGARY FULL TIME EQUIVALENTS & AVERAGE EMPLOYMENT COSTS VS. AFTER TAX WAGES

	2007	2008	2009	2010	2011	2012	5 Year % Change
Population	-	1,042,892	1,065,455	1,071,515	1,090,936	1,120,225	7.4%
Dwellings	-	432,997	438,663	445,455	450,952	459,339	6.1%
FTE's	-	14,400	14,848	15,038	15,449	15,352	6%
Real Salaries, Wages, and Benefits (2012 Dollars per FTE)	-	\$87,538	\$92,896	\$98,372	\$98,011	\$102,363	17%
Income All family units (2011 dollars)	\$81,800	\$78,100	\$79,800	\$80,700	\$90,700	-	10.9%
Income Economic families, two persons or more (2011 dollars)	\$104,600	\$100,600	\$103,100	\$100,500	\$113,800	-	8.8%
Income Unattached individuals (2011)	\$42,100	\$44,100	\$42,100	\$45,900	\$40,000	-	-5.0%

FIGURE 8

PER CAPITA DEBT, 2008-2012 ADJUSTED FOR INFLATION & POPULATION GROWTH

	2008	2009	2010	2011	2012	5 Year % Change
Real Debt per capita (2012 Dollars)	\$1,983	\$2,466	\$2,860	\$2,997	\$3,053	53.9%

FIGURE 9

PER CAPITA TRANSFERS, 2008-2012 ADJUSTED FOR INFLATION & POPULATION GROWTH

	2008	2009	2010	2011	2012	5 Year % Change
Real per capita capital transfers (2012 Dollars)	\$552	\$375	\$465	\$495	\$428	-20.7%
Real per capita operating transfers (2012 Dollars)	\$120	\$175	\$161	\$116	\$111	-7.9
Real per capita total transfers (2012 Dollars)	\$673	\$550	\$625	\$611	\$549	-18.4%

reduce the range of services in the ‘basket’ of services that the City of Calgary provides. The second is to change the methods of delivery used for city services from in-house delivery to contracted out delivery. The third is to alter the mix of funding mechanisms to better match supply and demand, increasing efficiency.

REFOCUSING THE BASKET OF GOODS AND SERVICES PROVIDED

Public opinion gives mixed results on what the basket of goods should be. In the Manning survey, a majority favours restricting the supply of services to those areas where there is no private alternative. However the same survey found that respondents support funding sports and recreation. The City’s own Citizen Satisfaction Survey shows that citizens are quite evenly divided between reducing (33 per cent), maintaining (34 per cent), and increasing (24 per cent) service levels.

If the city wished to control its expenditures by better focusing the basket of services it provides, it could begin by transforming its Societal Benefits policy. As noted in an earlier Manning Foundation report *The Role of Municipal Government*, the City’s Societal Benefits Policy encompasses thirteen possible benefits including ‘other.’ In other words the policy considers that almost any activity could be considered as fitting within the

legitimate role of government. As suggested in that report, the City could improve its focus by replacing thirteen societal benefits with a simple reference to the market failure principle. Such a statement would read:

“The City of Calgary will spend when and only when there is widespread demand for a service and there is no actual or conceivable adequate private alternative.”

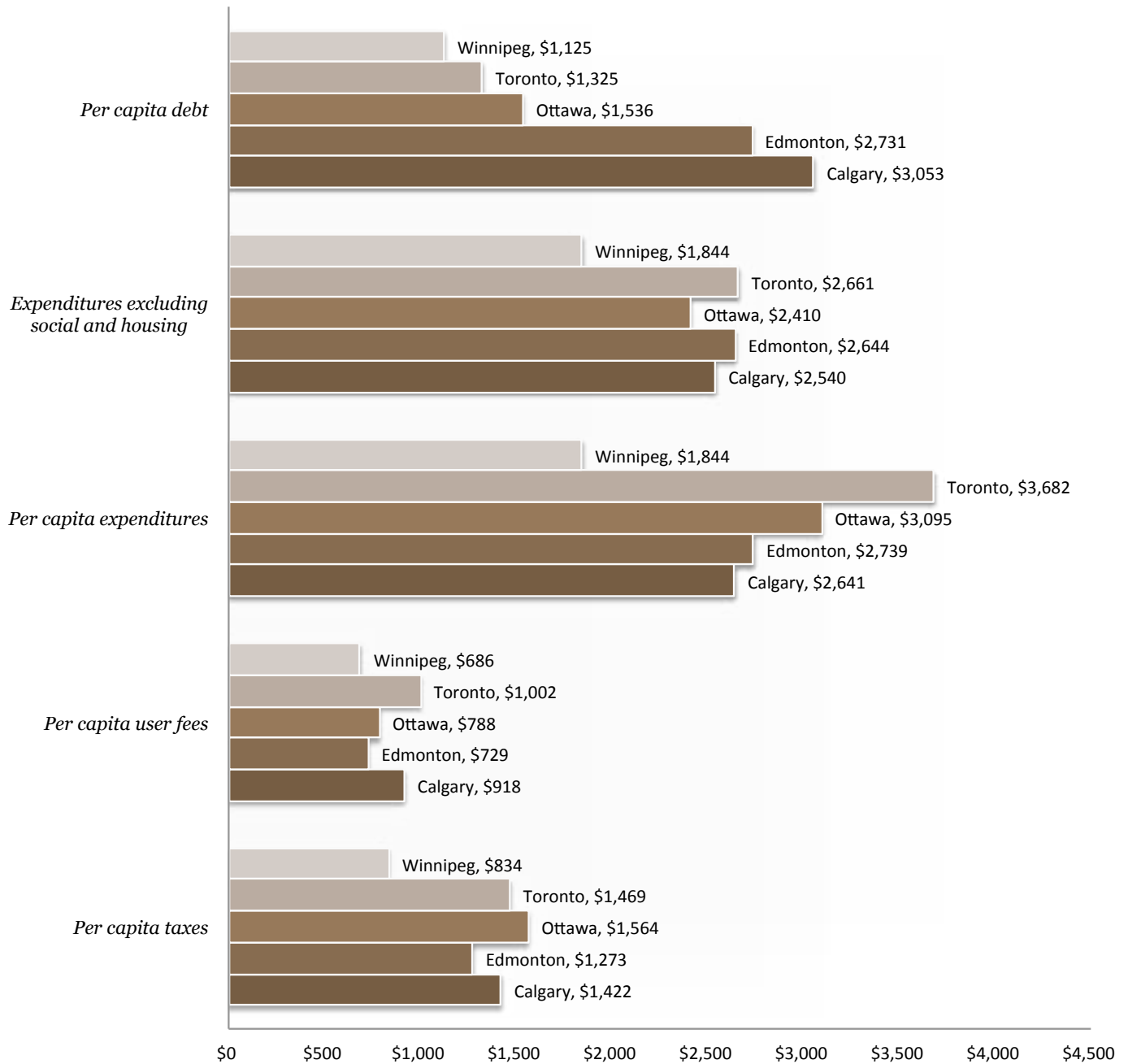
Such a statement would apply a much different test to council decisions. The question to be asked would not be whether there is any benefit, because few government expenditures deliver no benefit at all, but rather whether or not there is a market failure to be addressed. In the case of golf courses, for example, it would become very clear that viable private competition exists, and it would be difficult to argue that owning and operating these is within the role of government.

Such a principle appears in the Zero Based Review process, which asks ‘What would happen if the city did not offer the service?’ This could be strengthened by adding the question ‘What is the market failure the City is seeking to address?’

MAKE GREATER USE OF ALTERNATIVE SERVICE DELIVERY

FIGURE 10

COMPARISON OF TOP LINE FIGURES ON A PER CAPITA BASIS FOR 2012 FINANCIAL YEAR



Across Canada, cities are successfully experimenting with the contracting out of important services. For examples, Winnipeg has contracted out its Garbage Collection since 2005, with a reported initial saving of 40 per cent. Toronto has recently contracted out garbage collection for one half of the city in what will be a very graphic juxtaposition.

Public opinion research suggests that Calgarians are open to this approach, with 54 per cent supporting the proposition that the City should use more private competition in order to deliver services more efficiently. At the same time the City leans heavily on internal service provision, having spent \$278 million on external contractors and \$1,808 million on a combination of salaries, wages and benefits, and a goods and materials. The latter combination could be considered as the cost of in-house production of services.

The current Zero Based Review process requires the question be asked; is this service being delivered in the best way? This part of the Reviews might be strengthened by specifying contracting out as a possibility for that question.

ABANDON THE MUNICIPAL PRICE INDEX

Similar to the CPI, the City of Calgary has constructed its own MPI. The rationale? The best defence that can be made for the MPI

is that the CPI measures price changes by a basket of goods that are said to represent the types of goods that consumers buy. The City of Calgary is a municipality that buys different goods, and it should have a price index that tracks what it buys rather than what consumers buy.

Presented that way, the MPI seems difficult to oppose. However what is missing is that the basket of inputs that the City consumes is a conscious choice. Businesses that find themselves losing competitiveness cannot invent a new index to justify their costs, they must experiment with the mix of inputs and method of delivery in order to remain competitive. However the MPI delivers a justification for continuing as is.

Abandoning the MPI would be symbolic, however it would symbolize renewed commitment to better managing costs on behalf of taxpayers.

STRENGTHEN THE EMPHASIS ON THE BENEFITS MODEL OF FUNDING

Current City policy pays attention to the benefits model, an approach where, to the extent possible, those who benefit from a City service pay the cost of providing it. There are a number of advantages to this approach.

One advantage is fairness; people become responsible for the results of their own

decisions and pay the costs of their own actions, rather than cross subsidizing the decisions of others. Another is efficiency, where the amount of goods and services produced by the City becomes directly related to the prices that people are prepared to pay for them. As such, there is no wastage where citizens would have preferred to buy more of a service but are not given the mechanism to pay enough to bring it about or, conversely, citizens pay more than they would like and receive excessive amounts of a service.

A previous Manning Foundation report *Financing City Services Part II: Operating expenditures* sets out a range of ways that this commitment-in-principle by the city could be pursued more vigorously, increasing fairness and efficiency, and lowering taxes. Suggested policy changes in this direction include:

- Charging peak-period and distance-based fares for transit
- Charging differential property tax rates to reflect different costs of servicing different areas
- Charging tolls to use roads, removing transit subsidies, and reducing taxes in return

Some of these changes, road tolling in particular, are very unpopular politically, as shown in the Manning Survey. However the suggestion is included here for two reasons.

The first is that evidence from overseas has shown road tolls can gain popularity after implementation. The second is that the overall efficiency gain would help to allay other concerns the public has, namely concerns over the costs of government. More generally, the CSS shows that the public overwhelmingly prefers increases in user fees over increases in taxes.

REDUCE THE DIFFERENTIAL BETWEEN BUSINESS AND RESIDENTIAL TAX RATES

As mentioned earlier, Calgary has one of the largest differences between business and residential tax rates. As Harry Kitchen wrote, also in *Financing City Services*, “Higher taxation of business properties creates a number of efficiency and equity concerns.”

In short, these taxes are so much higher that they do not reflect higher levels of service and are effectively dead weight costs that companies must pay to do business in the city. They do not perform a role in matching supply with demand, because with such large differentials neither business nor residential taxes reflect the level of service received.

Nor does the differential truly save residential taxpayers money. The costs of high business property taxes must be extracted from economic activities in the Calgary jurisdiction, and that tends to mean they are

extracted from citizens' wages, investments, and expenditures in their roles as workers, owners, and customers of Calgary businesses.

A further difficulty with such large differentials is the lack of political feedback. Usually politicians who wish to tax and spend face a political 'cost' for doing so. While this mechanism is imperfect from the point of view of economic efficiency, the tax differential makes it even worse. Businesses already lack the ability to vote in return for their obligation to pay taxes, so even if tax rates were equal, elected officials would gain a political 'discount' for spending dollars raised from businesses.

However this 'discount' is amplified several times over by the tax differential. As the late political economist William Niskanen put it "Reducing the current tax burden...has much the same effect as a price control, increasing the amount demanded relative to that supplied from current revenues..." The property tax differential means that residential taxpayers, who vote, get a false signal about what current expenditures cost, and they in turn give elected officials a false signal about how much expenditure they would prefer.

The City of Calgary should take steps to remove the discrepancy between residential and business taxes. As Kitchen wrote, several cities have successfully taken such initiatives in recent years. In the interests of economic efficiency and political transparency, Calgary should follow suit.

RECOMMENDATIONS

POLICY	CURRENT STATUS	DESCRIPTION	BENEFIT
<i>Abandon Municipal Price Index.</i>	<i>City currently constructs its own price index to justify price increases.</i>	<i>Stop constructing and using this Index.</i>	<i>No longer distort perspective of what is reasonable efficiency compared to the rest of the economy.</i>
<i>Revise the Societal Benefits Policy.</i>	<i>Currently thirteen objectives including 'other'.</i>	<i>Replace the policy with a simple principle that the City should only act when there is no actual or plausible private sector alternative. Strengthen the Zero Based Review method with this principle.</i>	<i>More focused city services, less incursion onto private sector domain. Lower costs.</i>
<i>Make greater use of alternative service delivery.</i>	<i>In 2012, the City spent \$1,808 million on employees and materials, and \$278 million on external.</i>	<i>Put more emphasis on contestability, invite private sector alternatives for comparison as part of zero based review.</i>	<i>Potential savings on service delivery costs.</i>
<i>Strengthen emphasis on benefits principle in funding models.</i>	<i>Benefits principle is current City of Calgary Policy, but much opportunity to further pursue implementation.</i>	<i>Adjust price structures and taxes to better reflect the costs of providing different services.</i>	<i>Greater efficiency, less waste, lower overall expenditure, fairer as people pay for what they use.</i>

NOTES

1. *Full results of this poll can be found on the Manning Foundation Website www.manningfoundation.org The survey was carried out from September 18-26, 2013 the sample size was n=2,000 and precision +/-2.2%*
2. *City of Calgary (2012) Citizen Satisfaction Survey Available on the City of Calgary Website*
3. *Eight per cent expressed no opinion on the options presented.*
4. *Nenshi, N (2013) Straight Talk about Taxes Available online: <http://www.nenshi.ca/straighttalk>*
5. *Ruddy, A (2013) Wanted: Property Tax Fairness <http://www.cfib-fcei.ca/cfib-documents/rr3305.pdf>*
6. *See, for example this Calgary Herald Article where the Mayor and Aldermen are criticized for attempting to conflate provincial and municipal property taxes.*
7. *City of Calgary 2012 Annual Report p90 Available online: <http://www.calgary.ca/CA/fs/Pages/Plans-Budgets-and-Financial-Reports/Annual-Reports/Annual-Reports.aspx>*
8. *Bank of Canada Consumer Price Index Seasonally Adjusted Total CPI (July Years) Available online: <http://www.bankofcanada.ca/rates/price-indexes/cpi/>*
9. *Statistics Canada (2011) CANSIM Table 202-0603 Average after tax income, by economic family type. Available online: <http://www5.statcan.gc.ca/cansim/a26>*
10. *City of Calgary (2008) 'User Fees and Subsidies Policy' p2 Available online: <http://www.calgary.ca/CA/city-clerks/Documents/Council-policy-library/cfo010.pdf>*
11. *Kitchen, H (2013) 'Financing City Services Part I: Operating Expenditures' Manning Foundation For Democratic Education, Calgary p17. Available online: <http://www.manningfoundation.org/Docs/Operating-Expenses.pdf>*
12. *Niskanen, W (2006) 'Limiting Government: The failure of "Starve the Beast"' Cato Journal, Vol. 26, No. 3*

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DAVID SEYMOUR leads the Foundation's project to develop market-oriented policy for municipal government. Seymour returns to Canada after a year advising the minister responsible for implementing charter schools in his native New Zealand. Previously, he served as the Senior Policy Analyst at the Frontier Centre for Public Policy. He is the author of *Birth of a Boom: Saskatchewan's Dawning Golden Age*. Seymour holds degrees in electrical engineering and philosophy from the University of Auckland.

UPCOMING REPORTS

The Manning Foundation is building intellectual capital for municipal governance in five streams of public policy enquiry. Each stream will include a series of public policy papers designed to stimulate new thought about the role of municipal government in society. Manning Foundation research papers are placed in the public domain via the Foundation's website and are available for review, debate, criticism and support by Canadians regardless of their political affiliation.

1. ORGANIC CITIES

An enquiry into how cities grow and what role government should play in regulating growth and providing infrastructure, with the goals of economic efficiency and liveability. Much of the debate around municipal development is based around what urban forms are desirable, with sprawlers and smart growthers alike arguing that land-use regulation and infrastructure provision should favour their 'optimal' urban form.

The Organic Cities project takes a different perspective: that what is important is not the urban form that emerges, but the processes that are in place, particularly the role of government. On this view, it is more important that the market is left free to serve consumer demand, with the important constraints being property rights and the real costs of infrastructure provision rather than land-use regulations.

Upcoming papers include an enquiry into the politics of implementing road tolls in Calgary.

2. APPROPRIATE ACTIVITIES

An enquiry into the optimal role of government, with a positive analysis of what municipal government currently does and a normative analysis of what roles government is best equipped to fill. These roles broadly divide into an ownership role, a regulatory role, and an expenditure role each of which can be over or under played. This stream builds on concepts such as market failure, public goods and subsidiarity to identify which activities municipal government does or does not have a comparative advantage over other levels of government.

Upcoming papers include enquiries into the proper role of municipal government as a regulator and as a distributor of wealth.

3. CITIZEN SOVEREIGNTY

An enquiry into how well citizens can hold government to account, including monitoring of its activities and protecting their natural rights. This stream investigates standards of municipal accounting and performance reporting, open government, public safety and intergenerational equity. It considers concepts such as open government and open data, and property rights.

Future papers in this series include enquiries into the quality of performance reporting, intergenerational equity with respect to municipal government and open data projects.

4. THE OPEN SOCIETY

Open societies share power among a range of different institutions, unlike closed societies where it is vested in just one. The Open Society is an enquiry into the role of different institutions in the city, including the church, charities and associations. This stream has a historical element, it considers how these different elements have interacted in the past and may do so in the future.

Past papers include an account of the role of civil society in building Calgary.

5. MUNICIPAL ISSUE REPORTS

This stream covers basic elements of public policy, including an introduction to the role of government at municipal level, briefings on areas of municipal policy and issue papers framed in terms of values, facts and ideas of conservatism applied to municipal policy. Particularly salient policy areas include public safety, mobility and affordability.





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